

3. Meeting of the ERS Board of Trustees



August 29, 2018



Public Agenda Item # 1.1

Call Meeting to Reconvene the ERS Board of Trustees



August 29, 2018

Public Agenda Item # 2.1

*Review and Approval of the Minutes to the May 23, 2018
meeting of the Board of Trustees (Action)*



August 29, 2018

Questions?

Action Item



Public Agenda Item # 3.1

*Review and Consideration of Proposed New Rule Related to Mediation
for Chapter 67 (Hearings on Disputed Claims) (**Action**)*



August 29, 2018

Paula A. Jones, Deputy Executive Director and General Counsel

Proposed New Rule § 67.44 Mediation

Chapter 67 (Hearings on Disputed Claims)



- Implements Recommendation 5.1 of the Sunset Advisory Commission Staff Report to “apply standard across-the-board requirements to ERS”
- Implements § 815.1025 (S.B. 301), Texas Gov’t Code, requiring ERS to “develop a policy to encourage the use of ... appropriate alternative dispute resolution”

Proposed New Rule § 67.44 Mediation

Chapter 67 (Hearings on Disputed Claims)



- Allows mediation in contested cases for:
 - nonoccupational disability retirement benefits,
 - occupational disability retirement benefits,
 - long-term disability income insurance benefits,
 - short-term disability income insurance benefits,
 - State of Texas Dental Choice PPO benefits and
 - other cases in accordance with applicable laws, regulations and/or plan requirements.

Proposed New Rule § 67.44 Mediation

Chapter 67 (Hearings on Disputed Claims)



- Notice of proposed new rule was published in the July 27, 2018 issue of the *Texas Register*. No comments were received by ERS.
- Staff recommendation:
Adopt proposed new rule § 67.44 as presented.

Questions? Action Item



Public Agenda Item # 3.2

*Review and Consideration of Proposed Rule Amendments for Chapter 81 (Insurance) (**Action**)*



August 29, 2018

Robin Hardaway, Director of Customer Benefits

Proposed Amendments to Chapter 81

Concerning insurance



- Effective April 1, 2018 the Centers for Medicare & Medicaid Services (CMS) began issuing new Medicare cards, replacing the Social Security number-based Health Insurance Claim Number (HICN), with a new unique Medicare Beneficiary Identifier (MBI).
- This change requires ERS to modify current Medicare retiree insurance enrollment processes.
- ERS must receive an MBI from new enrollees and confirm that number with CMS before new participants can enroll in the HealthSelect Medicare Advantage PPO (MA PPO) and HealthSelect Medicare Rx.
- Members who are becoming Medicare eligible will be enrolled or stay enrolled in the HealthSelect plan until CMS confirms enrollment.

Proposed Amendments to Chapter 81

Insurance



Propose amendments to Section 81.7 (Enrollment and Participation)

- **Section 81.7 (a)(3)(E)**, concerning retirees:
 - Amended to clarify the enrollment process into the HealthSelect MA PPO for retirees turning age 65 or already age 65
 - Will be enrolled into the MA PPO once Medicare enrollment is confirmed by CMS
- **Section 81.7 (a)(4)(A) and Section 81.7 (a)(5)(C)**, concerning Medicare-eligible dependents and surviving dependents:
 - Amended to clarify the enrollment process into the HealthSelect MA PPO for Medicare-eligible dependents and surviving dependents
 - Will be enrolled into the MA PPO once Medicare enrollment is confirmed by CMS

Proposed Amendments to Chapter 81

Insurance



Propose amendments to Section 81.7 (Enrollment and Participation)

- **Section 81.7 (a)(3)(F)**, concerning retirees:
 - Amended to clarify the enrollment process into HealthSelect Medicare Rx for Medicare-eligible retirees
 - Will be enrolled into HealthSelect Medicare Rx once Medicare enrollment is confirmed by CMS

- **Section 81.7 (a)(4)(B) and Section 81.7 (a)(D)**, concerning Medicare-eligible dependents and surviving dependents:
 - Amended to clarify the enrollment process into HealthSelect Medicare Rx for Medicare-eligible dependents and surviving dependents
 - Will be enrolled into HealthSelect Medicare Rx once Medicare enrollment is confirmed by CMS

Proposed Amendments to Chapter 81

Insurance



- Notice of the proposed amendments to Chapter 81 was published in the July 27, 2018 *Texas Register* (43 TexReg 334).
- The deadline to receive comments was Monday, August 27, 2018. No comments were received.

Questions?
Action Item



Public Agenda Item # 4.1

Texas Employees Group Benefits Program (GBP) Update



August 29, 2018

Diana Kongevick, Director of Group Benefits

Blaise Duran, Director of Actuarial and Reporting Services

Philip S. Dial, Rudd and Wisdom, Inc.

PY18 HealthSelect third-party administrator (TPA) contract impact

- HealthSelect experienced negative pharmacy trend during the first four months of PY18 due to the new pharmacy benefits manager (PBM) contract. Trend has since returned to historic norms.
- As in the first year of the PBM contract, the first year of the HealthSelect medical TPA contract resulted in lower-than-expected spend. This is largely due to:
 - increased HealthSelect network advantage, with more competitive provider reimbursement rates, and
 - lower utilization due to the transition. Utilization rates have returned to expected levels.

GBP Update

Plan Year 2019 outlook



- The GBP is expected to finish the biennium in a strong financial position.
 - PY19 trend is expected to be unusually high when compared to low utilization in the first part of PY18.
 - Despite the utilization, HealthSelect total cost is expected to be approximately the same as in PY17.
 - Fully-insured plan premiums also have been low compared to prior years.

GBP Update



ERS initiative – virtual mental health visits

- Beginning this fall, ERS is expanding HealthSelect mental health provider access through Doctor on Demand and MD Live.
- The medical plan virtual mental health visit is subject to the same copay and out-of-pocket expense as a visit to a mental health provider's office.
- Regular periodic visits must be scheduled in advance, but prior authorizations are not required.
- This benefit is expected to have particular value in rural areas, where access to mental health providers may be limited.

GBP Update

85th legislative session riders



- **Rider 15** – Requires ERS to reduce freestanding emergency room (FSER) plan costs.
- **Rider 18** – Requires ERS to work with Health Related Institutions to achieve savings.
- **Article IX, Section 10.06** – Requires Health and Human Services Commission to coordinate with ERS and other state agencies to develop recommendations for an integrated health care information system.
- **Article IX, Section 10.07** – Requires ERS to collaborate with certain other state agencies on quality-based initiative.
- **Riders 14 and 16** – Requires ERS analyze Consumer Directed HealthSelectSM and review alternative plan design options.
- **Rider 17** – Allows ERS to operate or contract with an onsite or near-site clinic as long as no funds are used to acquire or build the clinic and it is operated on a cost-neutral or cost-productive basis.

GBP Update



ERS initiatives – GBP Funding Policy

- ERS recently formed an internal workgroup to discuss the components of a GBP funding policy.
- Recent discussions included the goals for such a policy and an overall goal statement.
- The workgroup is targeting an agenda brought to the December 2018 Board meeting, with the potential for Board consideration at the May 2019 meeting.

Questions?



Public Agenda Item # 4.2

*Consideration of Proposed Rates for HealthSelectSM Medicare
Advantage PPO Plan for Calendar Year 2019 (Action)*



August 29, 2018

Diana Kongevick, Director of Group Benefits
Blaise Duran, Director of Actuarial and Reporting Services
Philip S. Dial, Rudd and Wisdom, Inc.

Medicare Advantage PPO Plan

Highly valued by retirees



- The HealthSelect SM Medicare Advantage preferred provider organization (HealthSelect MA PPO) is a fully-insured PPO customized for the Texas Employees Retirement System of Texas (ERS).
- The cost of the plan is heavily subsidized by the federal government, resulting in lower cost to retirees and reduced cost to the program.
- The plan is highly valued and well-received, and enrollment continues to increase.

HealthSelect MA PPO



- The HealthSelect MA PPO continues to provide the most cost-effective medical benefits for Medicare-primary Texas Employees Group Benefits Program (GBP) participants for both the state and eligible members.
- The HealthSelect MA PPO is a fully insured program offered through Humana.
- The HealthSelect MA PPO is a customized plan for ERS – *not an off-the-shelf product*.

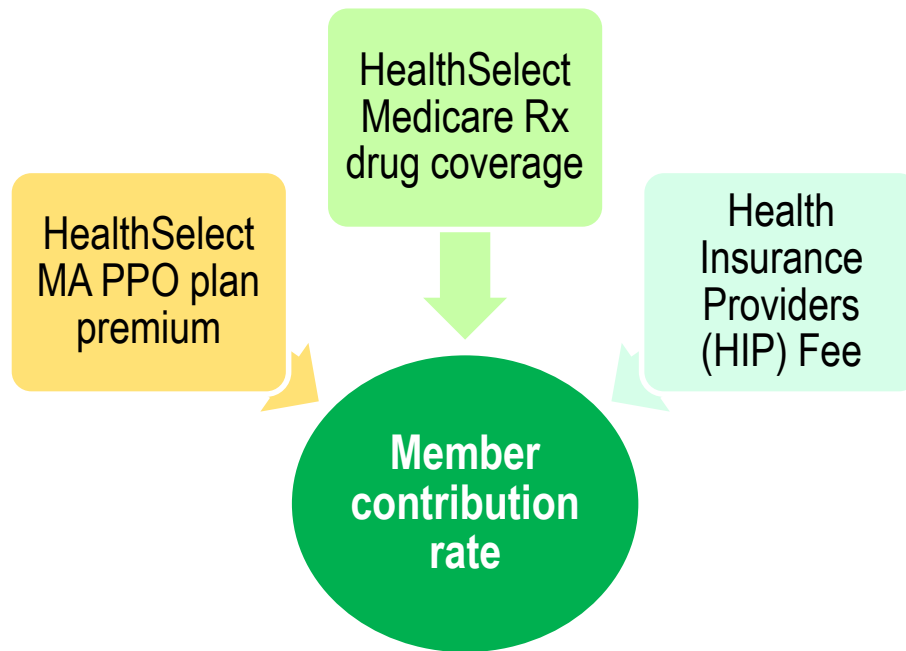
HealthSelect MA PPO	January 2016	January 2017	January 2018
Members	50,533	54,243	58,522
Dependents	13,419	14,453	15,504
Total Enrolled Participants	63,952	68,696	74,026

HealthSelect MA PPO

Member contribution rates



The HealthSelect MA PPO member contribution rates comprise three elements:



HealthSelect MA PPO

Requirements by statute



When determining appropriate premium rates for the HealthSelect MA PPO, ERS must comply with a rider in the General Appropriations Act which stipulates that:

“In no event shall the total amount of state contributions allocated to fund coverage in an optional health plan exceed the actuarially determined total amount of state contributions required to fund basic health coverage for those active employees and retirees who have elected to participate in that optional health coverage.”

HealthSelect MA PPO



Requirements: theoretical cost index

To ensure compliance with the rider, the consulting actuary utilizes a theoretical cost index (TCI) model.

- TCI estimates the total cost that would be required to cover HealthSelect MA PPO participants if they were enrolled in HealthSelectSM of Texas, the GBP's self-funded health insurance plan.
- To participate in the GBP, the HealthSelect MA PPO administrator must agree to charge premium rates that are no greater than 95% of the TCI in order to ensure savings of at least 5% as compared to the cost of coverage under HealthSelect of Texas.

HealthSelect MA PPO

Proposed monthly contribution rates for CY19



	Medicare-Primary Spouse	Medicare-Primary Surviving Spouse
Current (CY18) HealthSelect MA PPO Rates	\$160.56	\$321.12
Proposed CY19 HealthSelect MA PPO Rates	\$140.92	\$281.84
Change from CY18 Rates	(\$19.64)	(\$39.28)
HealthSelect of Texas FY19 Rates	\$358.00	\$716.00
Retiree Savings through HealthSelect MA PPO <i>(difference in HealthSelect of Texas and HealthSelect MA PPO rates)</i>	\$217.08	\$434.16

Questions?

Action Item



Public Agenda Item # 4.3

Consideration of Proposed Rates for Medicare Advantage Health Maintenance Organization Plan for Calendar Year 2019 (Action)



August 29, 2018

Diana Kongevick, Director of Group Benefits

Blaise Duran, Director of Actuarial and Reporting Services

Philip S. Dial, Rudd and Wisdom, Inc.

Medicare Advantage HMO Plan

Highly valued by retirees



- The Medicare Advantage health maintenance organization (MA HMO) is a fully-insured plan specific to those who reside in one of eight Houston-area counties.
- The cost of the plan is heavily subsidized by the federal government, resulting in lower cost to retirees and reduced cost to the program.
- The plan is highly valued and well-received, and enrollment continues to increase.

Medicare Advantage HMO (MA HMO)

KelseyCare Advantage



- KelseyCare Advantage is the only MA HMO currently offered under the Texas Employees Group Benefits Program (GBP).
- The MA HMO participants receive medical coverage through KelseyCare Advantage, while prescription drug coverage is through the self-funded HealthSelectSM Medicare Rx plan, administered by UnitedHealthcare.

KelseyCare Advantage*	January 2016	January 2017	January 2018
Members	1,025	1,117	1,206
Dependents	209	238	256
Total Participants Enrolled	1,234	1,355	1,462

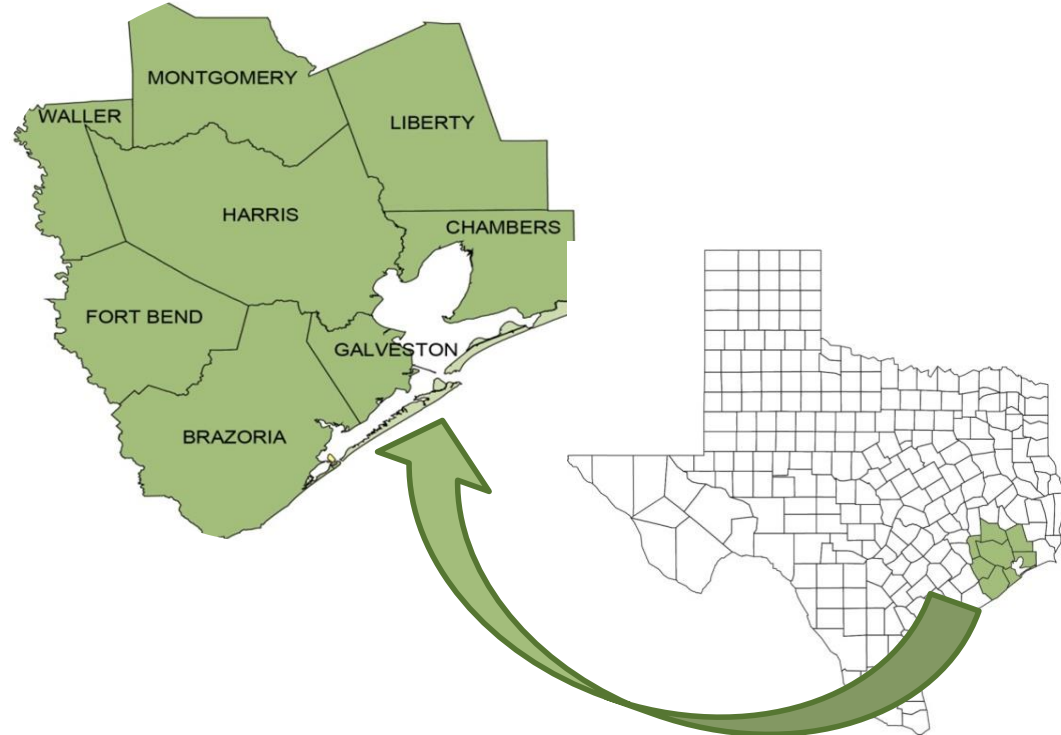
*Medical coverage only

KelseyCare Advantage MA HMO



Service area

- KelseyCare Advantage provides MA HMO coverage in eight Houston-area counties.
- The service area will not change for Calendar Year 2019.

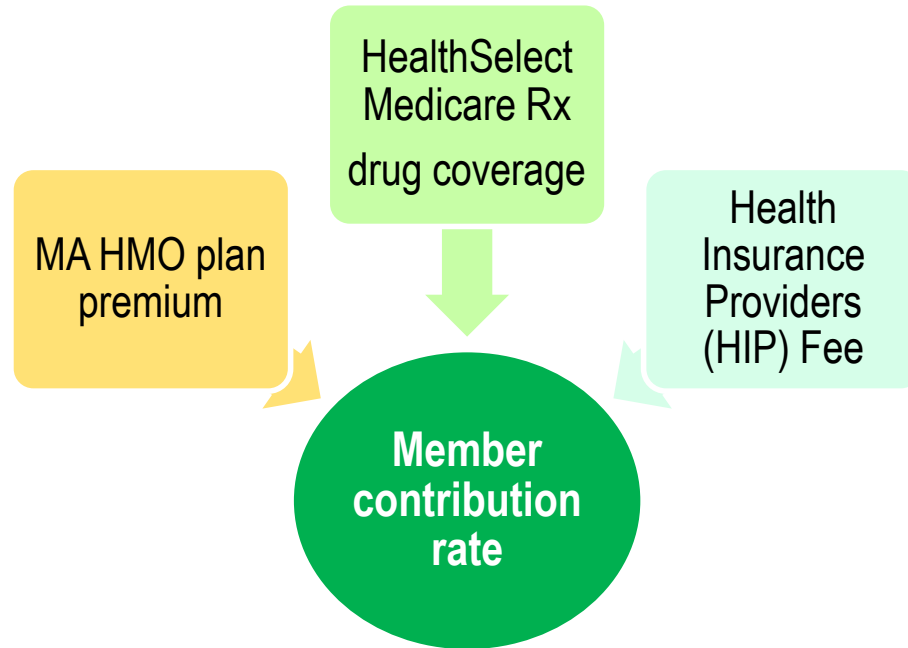


KelseyCare Advantage MA HMO

Member contribution rates



The KelseyCare Advantage MA HMO member contribution rates comprise three elements:



KelseyCare Advantage MA HMO



Requirements by statute

When determining appropriate premium rates for participating MA HMOs, ERS must comply with a rider in the General Appropriations Act which stipulates that:

“In no event shall the total amount of state contributions allocated to fund coverage in an optional health plan exceed the actuarially determined total amount of state contributions required to fund basic health coverage for those active employees and retirees who have elected to participate in that optional health coverage.”

KelseyCare Advantage MA HMO



Requirements: theoretical cost index

To ensure compliance with the rider, the consulting actuary utilizes a theoretical cost index (TCI) model.

- TCI estimates the total cost that would be required to cover the MA HMO's participants if they were enrolled in HealthSelectSM of Texas, the GBP's self-funded health insurance plan.
- To participate in the GBP, the MA HMO administrator must agree to charge premium rates that are no greater than 95% of the TCI in order to ensure savings of at least 5% as compared to the cost of coverage under HealthSelect of Texas.

KelseyCare Advantage MA HMO

Proposed monthly contribution rates for CY19



	Medicare-Primary Spouse	Medicare-Primary Surviving Spouse
Current (CY18) MA HMO Rates CY18	\$136.10	\$272.20
Proposed CY19 MA HMO Rates	\$122.38	\$244.76
Change from CY18 Rates	(\$13.72)	(\$27.44)
HealthSelect of Texas FY19 Rates	\$358.00	\$716.00
<i>Retiree Savings through MA HMO</i> <i>(difference in HealthSelect of Texas and MA HMO rates)</i>	\$235.62	\$471.24

Questions?

Action Item



Public Agenda Item # 4.4

*Review and Consideration of Proposed
Texa\$averSM 401(k) / 457 Program Roth Fees (**Action**)*



August 29, 2018

Georgina Bouton, Assistant Director of Group Benefits

Nora Alvarado, Director of Voluntary Income Plans

Texa\$aver 401(k) / 457 Program



Overview

The Texa\$aver program is a voluntary tax-deferred supplemental retirement program

- composed of a 401(k) plan available to state agency employees and a 457 plan available to state agency and higher education institution employees,
- developed to help state agency and eligible higher education institution employees with personal retirement savings, and
- designed to complement ERS pension and Social Security benefits.

Texa\$aver 401(k) / 457 Program

Contributions and funding



Contributions

- Participants invest their income through salary deductions.
- Roth (after-tax) contributions were introduced to both account types January 2012.

Funding

- The Texas Legislature does not appropriate funds for program administration.
- Administrative expenses are fully paid by participants through monthly administration fees.

TexaSaver 401(k) / 457 Program

Total assets over \$3.1 billion



As of March 31, 2018	401(k) Accounts		457 Accounts		TOTAL
	Traditional	Roth	Traditional	Roth	
Assets (in millions)	\$2,275.9	\$29.5	\$786.7	\$24.2	\$3,116.3
Participant Balances (average)	\$11,620	\$6,154	\$24,306	\$6,029	NA
Monthly Deferral (average)	\$113	\$229	\$283	\$239	NA
No. of Participant Accounts	196,712	4,791	30,441	4,081	236,025
No. of Contributing Accounts	91,481	3,224	17,313	2,615	114,633
No. of Non-contributing Accounts	105,231	1,567	13,128	1,403	121,329

Total Roth accounts: 8,872

TexaSaver 401(k) / 457 Program

Administrative fee schedule



ACCOUNT BALANCE	MONTHLY FEE
	Per Participant, Per Account Per Contribution Type
\$10.00 or less	No fee
Between \$10.01 and \$1,000.00	\$ 1.18
Between \$1,000.01 and \$16,000.00	\$ 3.99
Between \$16,000.01 and \$32,000.00	\$ 6.00
Between \$32,000.01 and \$48,000.00	\$ 8.17
Between \$48,000.01 and \$64,000.00	\$10.89
\$64,000.01 or more	\$13.62

Note: Administrative fees may be offset by quarterly fund reimbursements made directly into participant accounts through revenue-sharing agreements that ERS has with most of the TexaSaver funds.

Texa\$aver 401(k) / 457 Program



Participant scenarios

Scenario 1

Participant has \$560 in traditional 401(k) and \$340 in Roth 401(k)

- Current monthly fee structure:
\$1.18 for Traditional and \$1.18 for Roth,
or \$2.36 in total 401(k) fees
- Revised monthly fee structure:
\$1.18 for 401(k), combined balance

ACCOUNT BALANCE	MONTHLY FEE
	Per Participant, Per Account Per Contribution Type
\$10.00 or less	No fee
Between \$10.01 and \$1,000.00	\$ 1.18
Between \$1,000.01 and \$16,000.00	\$ 3.99
Between \$16,000.01 and \$32,000.00	\$ 6.00
Between \$32,000.01 and \$48,000.00	\$ 8.17
Between \$48,000.01 and \$64,000.00	\$10.89
\$64,000.01 or more	\$13.62

Texa\$aver 401(k) / 457 Program



Participant scenarios

Scenario 2

Participant has \$400 in traditional 457 and \$900 in Roth 457

- Current monthly fee structure:
\$1.18 for traditional and \$1.18 for Roth,
or \$2.36 in 457 fees
- Revised monthly fee structure:
\$3.99 for 457, combined balance

ACCOUNT BALANCE	MONTHLY FEE Per Participant, Per Account Per Contribution Type
\$10.00 or less	No fee
Between \$10.01 and \$1,000.00	\$ 1.18
Between \$1,000.01 and \$16,000.00	\$ 3.99
Between \$16,000.01 and \$32,000.00	\$ 6.00
Between \$32,000.01 and \$48,000.00	\$ 8.17
Between \$48,000.01 and \$64,000.00	\$10.89
\$64,000.01 or more	\$13.62

Texa\$aver 401(k) / 457 Program

Fee structure proposal



Current administrative fee structure: per participant, per account, per contribution type

**Each Participant Assessed
Monthly Fee**

Per Account

- Texa\$aver 401(k)
- Texa\$aver 457

Per Contribution Type

- Traditional (pre-tax) contributions
- Roth (post-tax) contributions

Simplified administrative fee structure: per participant, per account

**Each Participant To Be Assessed
Monthly Fee**

Per Account

- Texa\$aver 401(k)
- Texa\$aver 457

Texa\$aver 401(k) / 457 Program

Staff recommendation



- Staff recommends simplifying the administrative fee structure by eliminating the multiple administrative fees in an account when there are both traditional and Roth contributions.
- Objective is to have the monthly administrative fees assessed on a per participant, per account basis beginning October 1, 2018.

Questions?
Action Item



Public Agenda Item # 5.1

*Review and Consideration of the
2019 Board of Trustees Election Calendar (Action)*



August 29, 2018

Bernie Hajovsky, Director of Enterprise Planning

Election Overview

Candidate and voter eligibility



Who is eligible to run?

All contributing ERS
employee class members,
except HHS Enterprise and
DPS employees
(These agencies already
have a representative.)

Who is eligible to vote?

Anyone with an ERS
account balance
(contributing or
non-contributing)

Retired state employees
receiving an annuity
from ERS

Election Overview

Voting channels



- ☐ All voters receive a paper ballot in the mail.



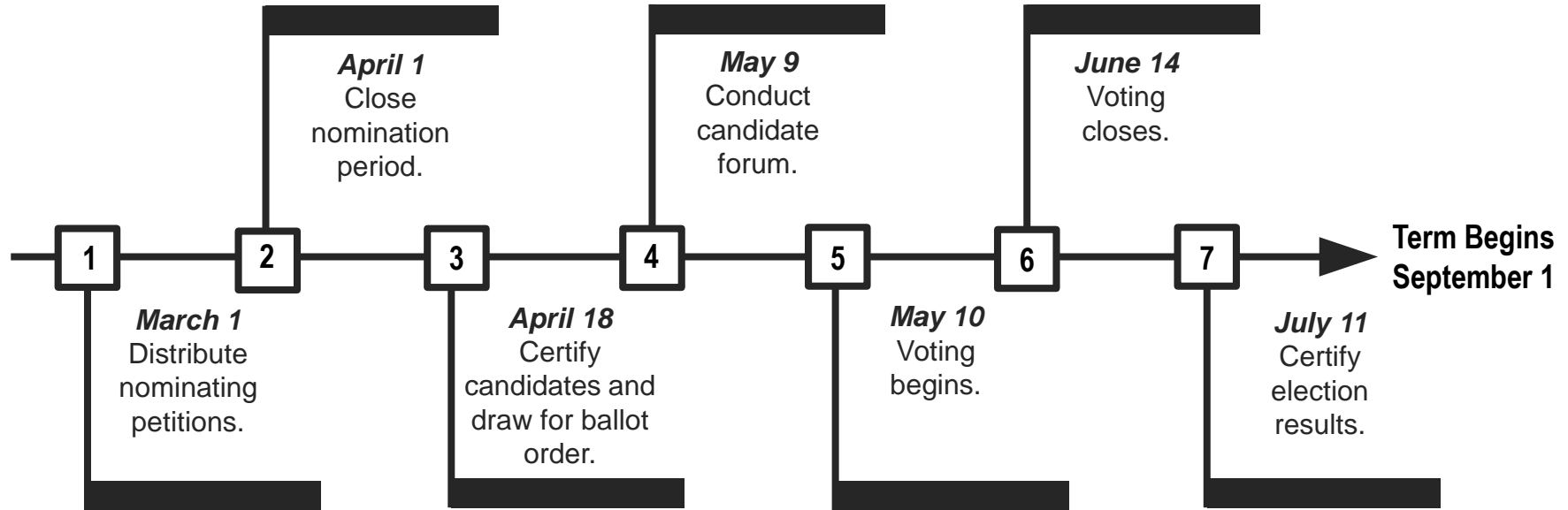
- ☐ All voters have the option to cast their vote online.



- ☐ Voters with an email address on file also receive an email that includes a personalized, embedded link into the online ballot.

2019 Election Timeline

Staff recommendation



Questions?

Action Item



Public Agenda Item # 6.1

Review and Discussion of the 2018 Compensation Study for ERS' Investments Professionals



August 29, 2018

DeeDee Sterns, Director of Human Resources
Jamey Pauley, Enterprise Planning Office
Ruth Ann Eledge, Segal Waters Consulting

Compensation Study Review

Introductions



- ERS regularly conducts compensation studies of the investment staff to fulfill a Board directive that the system pay competitive market rates in order to recruit and retain the right personnel to invest the Trust.
- Assisting Human Resources with this year's study are:
 - Jamey Pauley, Enterprise Planning Office
 - Ruth Ann Eledge, Segal Waters Consulting

Compensation Study Review

Background



- On November 9, 2017, ERS released a request for proposals to qualified vendors to provide a customized compensation study for positions within the Investments Division.
- The study was commissioned to evaluate the competitiveness of both pay and benefits for 53 non-administrative investment benchmark jobs.
- These 53 benchmark jobs represent 71 non-administrative positions within the Investments Division; some job categories have multiple people.

Compensation Study Review

Background (continued)



- A contract for the requested compensation study was executed on March 1, 2018, with Segal Waters Consulting.
- On March 2, Segal Waters began project work.
- On July 9, Segal Waters issued its final report to ERS.
- This report includes detailed findings regarding base pay, pay practices, paid leave, health benefits, retirement benefits, incentive compensation plans and total compensation.

Compensation Study Review



Findings from the study presented by:

Ruth Ann Eledge

Vice President, Segal Waters Consulting



Employees Retirement System of Texas

Compensation Study Briefing

August 29, 2018

Presented by:

Ruth Ann Eledge, SPHR
Vice President and Senior Consultant

ERS Stated Objectives

- Conduct a Compensation Study for approximately 70 professional level positions within ERS' Investments Division
- Identify relevant peers who manage \$20 billion or more in assets with a significant portion of the assets internally managed
- Develop a custom market survey to collect, review, analyze and compare for each benchmark job title:
 - Job duties and responsibilities
 - Compensation (salaries, merits, incentive compensation, bonuses, etc.)
 - Education, certifications, experience, tenure
 - Specialized skills
 - Benefits
- Develop salary recommendations that take into consideration the State Compensation and Classification Plan Guidelines and the ERS Personnel Policy and Procedure Manual
- Present a detailed report of the data collected for each benchmark job title
- Develop recommendations regarding ERS' preferred market position based on the priorities of ERS, budget considerations and other governmental requirements



Overview of the Study

What is included in the scope of the study?

- Development of a Total Compensation survey, including salary, incentive plans, benefits, and retirement offerings
- Identification of comparable employers
- Collection of data
- Market comparisons
- Review of gaps in Total Compensation
- Reviewed grade assignments within the State Compensation System
- Final report documenting project methodology and findings
- On-site presentation to the Board regarding key findings from the final report

Market Comparison

Identification of Comparable Peers

- Commonality of positions
- Competition for jobs/talent
- Specific criteria:
 - \$20 billion or more in assets
 - Significant portion of the assets internally managed
- Use of published private sector data

Peer Employers Representative of Labor Market

Peer Employers	Location
California State Teachers' Retirement System	West Sacramento, CA
Colorado Public Employees' Retirement Association	Denver, CO
Florida Retirement System	Tallahassee, FL
Michigan Office of Retirement Services	Lansing, MI
New Jersey Public Employees' Retirement System	Trenton, NJ
Ohio Public Employees Retirement System	Columbus, OH
Ohio State Teachers' Retirement System	Columbus, OH
Teacher Retirement System of Texas	Austin, TX
Virginia Retirement System	Richmond, VA
Washington Investment Board	Olympia, WA
Employees' Retirement System of Texas	Austin, TX

Published private sector data was utilized from IBM Kenexa, Economic Research Institute, and Willis Towers Watson

Geographic Cost-of-Labor Adjustments

- Adjusted salaries for differences in the supply and demand for labor by geographic area.

Peer Employer	Location	Geographic Adjustment
California State Teachers' Retirement System	West Sacramento, CA	-11.3%
Colorado Public Employees' Retirement Association	Denver, CO	-7.7%
Florida Retirement System	Tallahassee, FL	9.5%
Michigan Office of Retirement Services	Lansing, MI	-3.4%
New Jersey Public Employees' Retirement System	Trenton, NJ	-13.9%
Ohio Public Employees' Retirement System	Columbus, OH	-1.6%
Ohio State Teachers' Retirement System	Columbus, OH	-1.6%
Teacher Retirement System of Texas	Austin, TX	0.0%
Virginia Retirement System	Richmond, VA	-1.3%
Washington Investment Board	Olympia, WA	-5.9%
Willis Towers Watson	United States Average	3.6%
Employees' Retirement System of Texas	Austin, TX	0.00%

Survey Development: Example of Job Summaries

Our survey document contains fifty-three (53) **Job Summaries**, approved by **Senior Management**, for the peer employers to match and specific instructions for peers to **NOT match on title alone**.

EXAMPLE JOB SUMMARIES

Benchmark Job	Job Summary
Investment Analyst	<p>Assists in coordinating and monitoring investments of the System; performs the essential analytical tasks to produce retrospective conclusions and reports that document the current market trends and performance of managers and investments. Researches investment performance and portfolio characteristics of existing and prospective investments; evaluate performance and portfolio characteristics to assure compliance with the directives of the trustees regarding investment objectives and constraints; assists in preparing analyses, evaluations, and proposals; prepares statistical and narrative reports; etc.</p> <p>Minimum Qualifications: Bachelor's degree in Finance, Economics, Accounting or Business Administration; 3 years of related investment experience; the ability to conduct thorough analysis and due diligence, and produce quantifiable recommendations supported by research; superior oral and written communication skills.</p>
Director of Investments	<p>Manages, monitors and reports on the System's investment portfolios and provides direction and oversight to the investment managers who represent the System's interests. In coordination with the Chief Investment Officer, this position supervises and directs all equity, fixed income, alternatives, absolute return, and emerging manager investment activities. Provides an ongoing analysis of the performance of all elements in the current investment structure; assigns and reviews subordinates' work; prepares performance appraisals; effectively recommends and imposes disciplinary action; and handles employee complaints.</p> <p>Minimum Qualifications: MBA with major coursework in public or business administration, economics or a closely related field; 8 years of increasingly responsible experience in the investment industry, including two years of supervision; and review of an extensive public or private market or fixed income investment program.</p>

Survey Development: Data Requested

- Compensation
 - Salaries
 - Merits
 - Incentive compensation
 - Bonuses
 - Incentive Plan documents
- Benefits
 - Paid Leave
 - Medical Insurance
 - Retirement
- Pay Practices
- Organizational Characteristics

Example of Compensation Report Table

APPENDIX B Employees Retirement System of Texas Detailed Market Data (Adjusted) Investment Operations Specialist						
Data Source	Matching Job Title	Years Of Svc	Range Minimum	Range Midpoint	Range Maximum	Average Salary
Public Sector						
California State TRS	Investment Officer II, Operations		\$85,832	\$96,634	\$107,435	\$92,488
Colorado PERA	Investment Operations Analyst	1	\$59,002	\$73,752	\$88,503	\$60,756
Florida Retirement System	Treasury Operations Specialist II	8.4	\$43,276	\$54,141	\$65,006	\$48,389
Michigan ORS	Treasury Investment Specialist	5.2	\$58,685	\$84,616	\$110,546	\$78,577
New Jersey PERS	No Match		NA	NA	NA	NA
Ohio PERS	Investment Operations Specialist	16	\$81,834	\$78,222	\$94,611	\$81,953
Ohio State TRS	No Match		NA	NA	NA	NA
Texas TRS	Financial Analyst II - Investment Ops	1.9	\$51,614	\$68,047	\$84,479	\$67,062
VA Retirement System	Investment Analyst		\$58,754	\$73,443	\$88,131	NA
WA State Investment Board	No Match		NA	NA	NA	NA
Employees Retirement System of Texas		5	\$51,614	\$68,047	\$84,479	\$61,106
Public Sector Market Average			\$59,857	\$75,551	\$91,244	\$71,538
ERS as a % of Public Sector Market Average			86%	90%	93%	85%
Private						
Economic Research Institute	Financial Analyst - Level 1		\$60,271	\$74,106	\$87,941	NA
IBM Kenexa	No Match		NA	NA	NA	NA
Willis Towers Watson	Financial Analysis - P2 Intermediate		\$57,080	\$68,081	\$79,082	NA
Employees Retirement System of Texas		5	\$51,614	\$68,047	\$84,479	\$61,106
Private Market Average			\$58,675	\$71,094	\$83,512	NA
ERS as a % of Private Market Average			88%	96%	101%	NA
Employees Retirement System of Texas			\$51,614	\$68,047	\$84,479	\$61,106
Overall Comparator Market Average			\$59,266	\$73,322	\$87,378	\$71,538
ERS as a % of Overall Market Average			87%	93%	97%	85%
Adjustment To Reach Market Average			15%	8%	3%	

NA = Data Not Available; All data is adjusted based on geographic differences in the cost of labor, effective date of published data, and/or differences in workweek definition, as applicable.
The overall market average is an average of each market segment

Performs highly complex investment operations and financial analysis and reconciliation work for the processing of securities and currency trades, corporate actions, inter-portfolio transfers and capital calls in the Operations Section of the Investments Division. Work involves researching, preparing and providing responses to complex inquiries, and completing time-sensitive tasks relating to processing, reconciling and reporting investment transactions. Works in a team environment under limited supervision of the Investment Operations Manager with considerable latitude in exercising initiative and independent judgment.

Minimum Requirements: Bachelor's Degree in Accounting or Finance. A minimum of two years of experience in investment operations, financial analysis or investment accounting. Extensive use of advanced Excel functions preferred. Two years of experience performing complex account reconciliations.

Market Position of Pay Ranges Across All Benchmarks

Employees Retirement System of Texas Pay Ranges as a Percent of the Market Averages				
	Pay Structure			Average Actual Salary
	Pay Range Minimum	Pay Range Midpoint	Pay Range Maximum	
Public Sector	77%	81%	84%	88%
Private Sector	96%	93%	91%	NA
Overall	85%	87%	88%	88%

Summary of Findings- Individual Benchmark Jobs

- ERS' market position varies by benchmark job
- Pay range midpoints were used to determine if individual benchmark jobs were at, above, or below market
- Jobs with midpoints below 95% of market were identified as lagging market
- Jobs with midpoints above 105% of market were identified as leading market
- **Thirty-nine (39)** benchmark jobs have range midpoints that are **below market**
- **Seven (7)** benchmark jobs have ranges that are **at market**
- **One (1)** benchmark jobs have range midpoints that are **above market**
- Six (6) jobs did not have sufficient data for analysis

Market Position of All Cash Compensation

Market position improves significantly with the addition of all cash compensation

	Base Pay (Midpoint)	Potential Max Incentive Pay – FY18	Employer Total Cash Compensation Costs
Overall Average	87%	161%	109%

Market Position of Health Benefits and Retirement

Market position is moderated with the addition of Employer Cost of Benefits

	Base Pay (Midpoint)	Potential Max Incentive Pay – FY18	Employer Cost of Benefits		Employer Total Compensation Costs (Pay and Benefits)
			Weighted Total Health Costs (Medical, Dental, & Vision)	Total Retirement Benefits (Defined Benefit, Defined Contribution & Deferred Compensation)	
Overall Average	87%	161%	84%	72%	105%

Summary of Findings - Benefits

- In general, benefits provided by ERS are competitive with peer employers
- Employee cost of Health Coverage:
 - » Lower than peer average for Employee Only
 - » Higher than peer average for Family
- Total Paid Leave:
 - » Overall, generally slightly lower than peers
- Retirement:
 - » Total employer contribution slightly lower than peer average

Conclusions

- **Pay Range Competitiveness:** The pay ranges are lagging the overall market at range minimum, midpoint, and maximum
 - The Retirement System's overall average pay range midpoint is 87% of the overall market average.
 - 39 benchmark job titles are below market and 7 benchmark job titles are at market
 - However, when current pay range maximums were compared to the market average midpoint, no jobs were identified within 10% of the range maximum
- **Total Cash Compensation Competitiveness:** When bonus and incentives are included the overall competitiveness of cash compensation improves dramatically to a lead position:
 - 109% of the overall market average
- **Total Compensation Competitiveness:** When base pay, incentives, employer health benefit costs, social security participation and retirement plan costs are analyzed, the Retirement System's market position is:
 - 105% of the overall market average

Compensation Study Review

Staff recommendation



- The report findings indicate that ERS may be above market in the structure of the Incentive Compensation Plan (ICP).
- The report compared the potential maximum award percentages for each individual job.
- Staff plans to seek additional data to thoroughly assess how the structure of the ERS ICP compares to market.
- With the data, staff will perform a more in-depth review.

Compensation Study Review

Staff recommendation



- The additional information will be used to determine what recommendations to present to the Board about potential changes to the ICP.
- Staff will continue to bring plan changes to the Board for consideration as part of its ICP annual review process.
- Decisions on the ICP may also guide decisions on base salary.
- The Board may choose to:
 - offer performance-based compensation that is higher than the market as a recruitment and retention tool, or
 - lower performance-based incentive compensation to be more in line with the market.

Compensation Study Review

Staff recommendation



- Staff recommends including money in the FY19 budget that enables leadership to make adjustments to certain salaries that appear to be below market midpoints.
- The Board will consider this item as part of the review and consideration of the FY19 agency budget.
- Staff will use data in Segal Waters' final report to assist in guiding future decisions regarding individual pay adjustments.

Questions?



Public Agenda Item # 7.1

Review and Consideration of the ERS Incentive Compensation Plan (Action)



August 29, 2018

DeeDee Sterns, Director of Human Resources

Incentive Compensation Plan (ICP)



Overview

- The Board of Trustees reviews and considers the ICP on an annual basis in a public meeting.
- Staff present a draft plan document to the Board during its May meeting.
- The draft document may or may not include recommended changes.
- Periodic updates occur to conform with the labor market and compensation plan standards, and to improve plan administration.
- The plan was most recently amended and adopted by the Board on August 23, 2017.

Incentive Compensation Plan (ICP)



Objectives

- Communicate strategic performance priorities to participating employees.
- Encourage sustained levels of high investment performance, without undue risk.
- Promote teamwork among employees.
- Support ERS' strategic and operational goals.
- Attract and retain key employees in a cost-effective manner.

Incentive Compensation Plan (ICP)



Recent study

- As part of the compensation study conducted by Segal Waters, some incentive plan information was gathered to perform an additional review.
- Survey respondents were asked to provide copies of their plan documents.
 - *Not all respondents in the survey peer group offer an incentive plan.*
- Staff determined that additional data is necessary to thoroughly assess how the ERS ICP compares to the market.

Incentive Compensation Plan (ICP)



Staff review

- Annually, staff reviews the plan and makes recommendations to the Board.
- A draft plan document for the FY19 plan year was submitted for preliminary review during the May Board meeting.
- The final draft for your consideration is included in your materials.

Incentive Compensation Plan (ICP)

Staff recommendations



Proposed ICP revisions:

- *Staff is not recommending any plan changes.*

Staff recommendation:

- Staff recommends the Board adopt, as part of the annual review of the plan, the ICP for Fiscal Year 2019 and the proposed plan document as submitted.

Questions?

Action Item



Public Agenda Item # 8.1

Review of 2018 ERS Accomplishments



August 29, 2018

Porter Wilson, Executive Director

Machelle Pharr, Chief Financial Officer

Support Our Members' Retirement Income Security



- Developed the agency's first Funding Priorities and Guidelines document.
- Increased ERS fund by \$1.5 billion, to more than \$28.4 billion as of June 30, 2018.
- Increased participation in Texa\$aver by 5.7% and program assets by 16.9%, as of December 31, 2017 over the previous calendar year.
 - Launched Texa\$aver campaign, resulting in contribution increases by more than 6.5% of those auto-enrolled at the 1.0% default rate.
- Issued more than \$2.3 billion in payments to retirees and beneficiaries.

Sustain Competitive Group Benefits Program



- Developed a pilot community wellness program in Huntsville, which engaged two large GBP employers and community resources to work together to improve the health and wellness of Huntsville residents.
- Hired the GBP's first Health Promotion Administrator to work with agency wellness coordinators and GBP plan administrators to expand health and wellness promotion programs and analyze the effectiveness of those programs.
- Established and held the first meeting of the Group Benefits Advisory Committee.
- Increased retiree enrollment in the HealthSelect Medicare Advantage preferred provider organization by 7.5% over the prior year-end.

Engage Stakeholders for Informed Decision Making



- Conducted in-house educational conferences and promoted strategic outreach with primers on private equity and infrastructure.
- Created an innovative, reader-friendly format for the GBP annual report.
- Engaged stakeholder groups each quarter to request input on ERS programs and share updates.
- Thoroughly assessed member publications, working with an external consultant, and began making suggested improvements.
- Engaged with members through a variety of channels, including:
 - 102 benefits education events,
 - 45 webinars,
 - 424,454 phone calls,
 - 3,300 on-site visits,
 - 20,000 emails,
 - 127,175 member requests and
 - more than 370,000 pieces of incoming and outgoing mail.

Enhance Agency Performance and Accountability



- Conducted the Survey of Employee Engagement, with the highest-ever participation rate by ERS employees.
- Implemented 16 of 19 projects related to Sunset Commission recommendations.
- Instituted an independent investment compliance function.
- Improved agency processes and procedures, including implementation of:
 - direct deposit of state and member contributions for retirement and insurance benefits and
 - an automated travel system to streamline authorizations and reimbursements.
- Developed a comprehensive space plan to accommodate staff during construction of the new building.
- Contracted with appropriate professionals (e.g., real estate broker, design-build firm, independent architect) as part of the redevelopment of the annex and obtained necessary zoning changes from the City of Austin.
- Improved the Records Management Program, including enhancement of the training program.

Questions?



Public Agenda Item # 8.2

Review of Building Development Project



August 29, 2018

Porter Wilson, Executive Director

Peter Jensen, CBRE

Chad Marsh, Ben Bufkin and Daniel Campbell, Endeavor

Design-build Process

Background and update



- ERS continues to work with the design-build firm, Ryan Companies, and architectural firm, STG, in the pre-construction and design process for the new building to replace the current ERS “annex” building.
- The new building will address current and future space needs for ERS, and will have excess capacity that ERS will lease to third-party tenants.
- Lease income generated is projected to cover the cost of the project and earn excess returns for the Trust.

Design-build Process

Design phases



- **Concept design phase** -- The “Edge” scheme was selected and approved.
- **Schematic design phase** -- The 100% schematic design drawings were approved at the end of July. We made several key decisions, including:
 - an offset core design in which elevators, stairwells, restrooms and other utilities are located on one side of the building;
 - one level of underground parking;
 - the existing loading dock serving both the existing and new buildings; and
 - space for ERS’ use on the fifth and ninth floors of the new building, with sky-bridge connection between buildings.
- **Design development phase** – This is currently underway, with approvals expected at the end of October.
- **Construction document phase** – The design-build team will develop a guaranteed maximum price (GMP) for the Board to consider at its December meeting. While the GMP is developed, the team will continue to work on the construction documents.



Design-build Process

Working with the City of Austin



- ERS went through a City of Austin zoning change in June, going from a general commercial services (CS) and commercial liquor sales (CS-1) district to the Central Business District (CBD). CBD zoning permits a wide variety of office, commercial, residential and civic activities commensurate with the regional and statewide significance of downtown Austin and the adjacent State Capitol.
- Austin Energy approved the underground location of the new electrical vault, which will serve the electricity needs of both buildings.
- We received our Capital View Corridor Elevation Determination and we have two view restrictions: the LBJ Library and 38th Street at Red River Street.
- We submitted an application for a site development permit, based on the amount of work to be done in the City's right-of-way.

Design-build Process

Additional procurement



- After a request for qualifications (RFQ) process, ERS selected NV5 to serve as the independent architect/engineer for the duration of the project.
 - An independent architect or engineer is a requirement of the design-build process.
- We will publish an RFQ in the fall for an independent engineer for construction materials engineering, testing and inspection services.

Pre – Market Due Diligence

- Financial viability | business case
- Site / Engineering Due Diligence

Marketing

- **“Launch” – 2 weeks**
 - Press release – 8.30.18 (Local, Regional, National)
 - Online presence
 - E-blast (brokers, tenants, investors)
- **Tenant outreach – 8-10 weeks**
 - Known to be in the market
 - Direct outreach
 - Accretive retail
 - “In Theme”
- **Letters of Intent – as received**

CBRE marketing TIMELINE



CBRE DEAL FLOW



market locally, regionally, nationally, & internationally

CBRE DEAL FLOW

Deal Flow is CBRE's listing platform for all property and portfolio sales: Full coverage tracking, secure virtual deal room, unmatched exposure.

9,000+ LISTINGS CREATED

500,000+ DATABASE OF INVESTORS

1.9M EXECUTIVE SUMMARY VIEWS

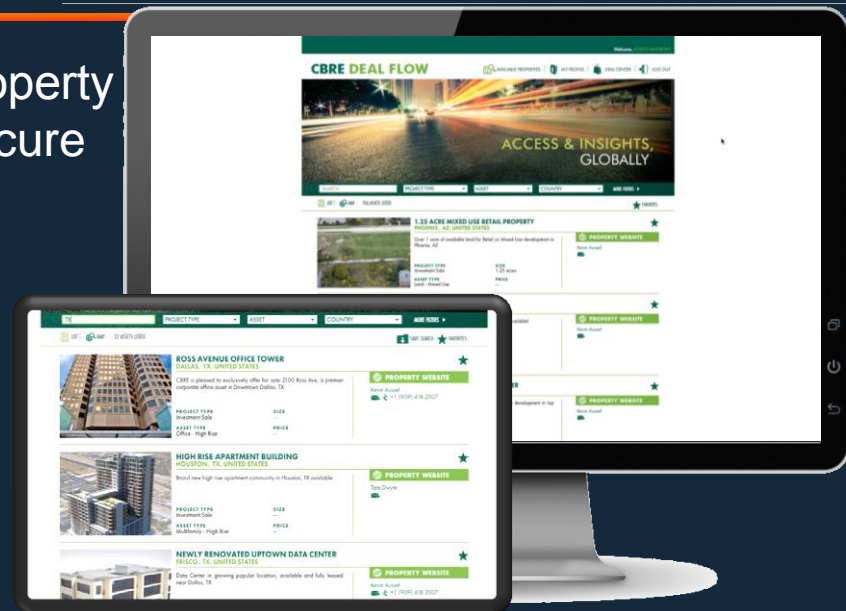
80M EMAILS SENT → 98.9% DELIVERABILITY

5M DOCUMENTS DOWNLOADED

275,000+ CONFIDENTIALITY AGREEMENTS SIGNED

250,000 PRINCIPALS

250,000 BROKERS

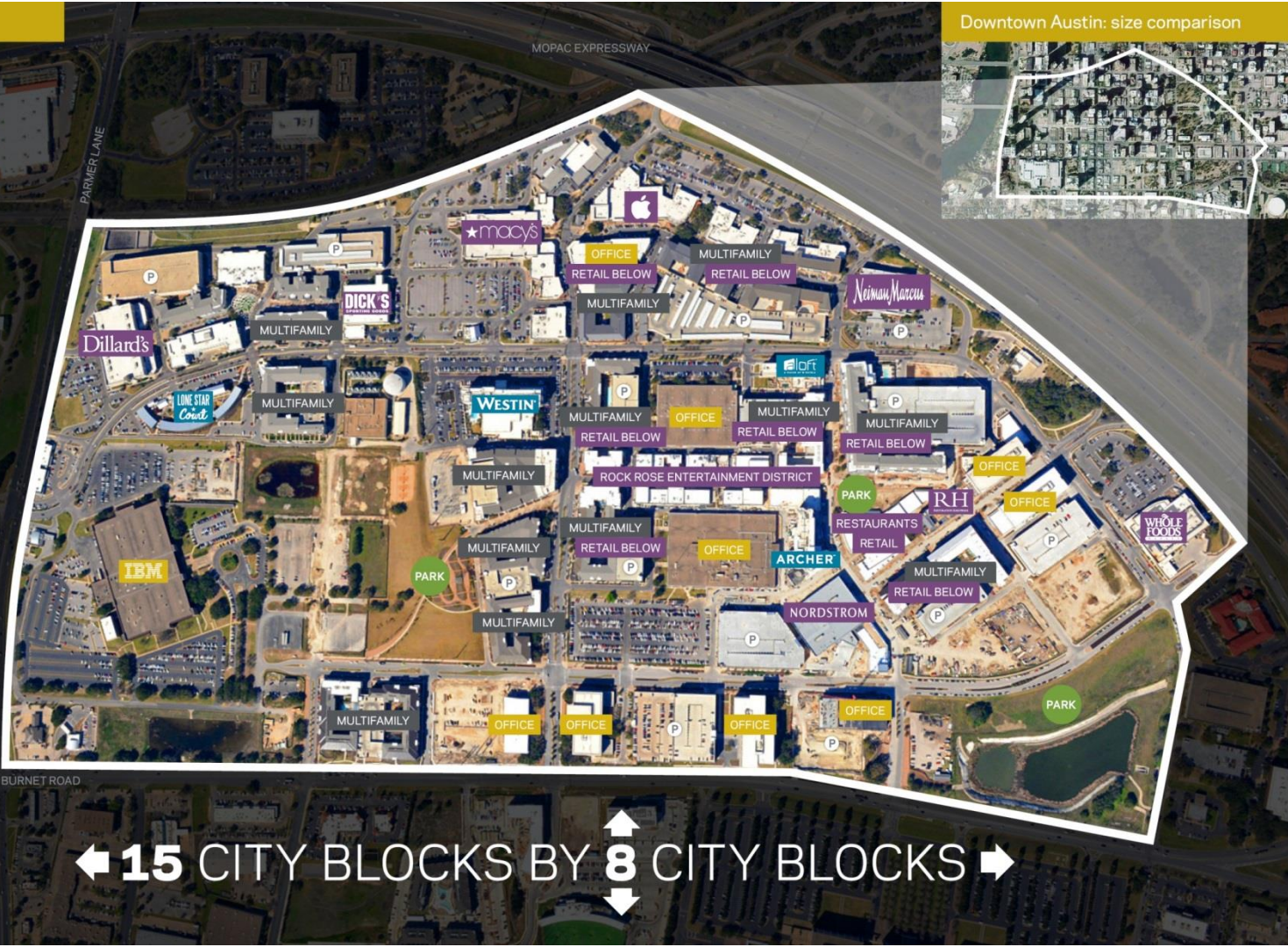




Company Timeline

1999	<ul style="list-style-type: none"> • Endeavor Founded • Purchases 170 acres in North Austin IBM's former manufacturing campus and future site of Domain • Announces the purchase of 175 acres adjacent to the Domain with a line-up of future tenants to include Whole Foods Market, Saks Fifth Avenue and Nordstrom • Acquires 22 acre Rollingwood Center site
2000	<ul style="list-style-type: none"> • Acquires Westech 360 Office Complex - 180,000 SF • Acquires former Radian Campus on MoPac for redevelopment (Reunion Park)
2003	<ul style="list-style-type: none"> • Announces plans for the Domain - a high-end, 750,000 SF, outdoor shopping center/mixed-use development
2004	<ul style="list-style-type: none"> • Announces Neiman Marcus is coming to the Domain • Southpark Meadows takes its first steps toward becoming Austin's largest retail center
2005	<ul style="list-style-type: none"> • IKEA announces their decision to open a store at Endeavor's University Park in Round Rock
2006	<ul style="list-style-type: none"> • Purchased Southpark Commerce Center • Breaks ground on 1890 Ranch in Cedar Park - 850,000 SF
2007	<ul style="list-style-type: none"> • Domain retail opens • Acquires Offices at Braker - 700,000 SF
2008	<ul style="list-style-type: none"> • Retail leasing team brings Endeavor's retail centers to 95% leased in the worst retail environment in 20 years • The national economic meltdown begins
2009	<ul style="list-style-type: none"> • University Oaks in Round Rock, TX and 1890 Ranch in Cedar Park, TX under development • Signs the largest local office lease with One West Bank that fills 174,000 SF Domain Gateway • Launches Prophet Opportunity Partners with Prophet Capital - a CMBS oriented hedge fund

2010	<ul style="list-style-type: none"> • Chosen to develop Freedom Crossing at Ft. Sam Houston, a 500,000 SF shopping center • Creates Endeavor Opportunity Partners fund to invest in economically challenged real estate
2014	<ul style="list-style-type: none"> • Co-Founder and Managing Principal, Bryce Miller, honored by Austin Business Journal's W. Neal Kocurek Commercial Real Estate Lifetime Achievement Award • Completes IBC Bank Plaza downtown
2015	<ul style="list-style-type: none"> • Retained to handle the leasing for what is considered by many to be the top office assets in Austin - Frost Bank Tower, 300 West 6th and One American Center • Announces Rock Rose at Domain - a dining and entertainment district at Domain to include 120 new national and local retail, restaurant, hotels and residential brands • Completes The Bowie downtown • Completes Rollingwood Center at MoPac and Bee Caves Road • The Austin American-Statesman recognizes Endeavor as one of the Top Workplaces of Greater Austin
2016	<ul style="list-style-type: none"> • The Parke in Cedar Park under development • Domain NORTHSIDE opens • For a second year, The Austin American-Statesman recognizes Endeavor as one of the Top Workplaces of Greater Austin • Chosen as developer for future redevelopment of The Austin-American Statesman waterfront site on the south shore of Lady Bird Lake • Opened Domain 1, Domain 5 and Domain 8 at 95% leased
2017	<ul style="list-style-type: none"> • Commences construction on Saltillo in East Austin • Commences construction on 901 E 6th office building in East Austin • Completes construction of The Parke in Cedar Park • Commences construction on Belterra Village in Dripping Springs • For a third year, The Austin American-Statesman recognizes Endeavor as one of the Top Workplaces of Greater Austin • Commences construction on 1200 Broadway in Nashville, TN • Commences construction on The Lyndon in San Marco, TX
2018	<ul style="list-style-type: none"> • Commences construction on Trinity at Left Bank in Ft. Worth, TX • Completes construction of Phase I of Belterra Village in Dripping Springs • Commences construction on 1222 Demonbreun, phase one of Gulch Union, in Nashville, TN





DOMAIN









D O M A I N



IBC BANK PLAZA

500 WEST 5TH STREET




THE BOWIE

Saltillo



901 E 6th



12th & Broadway

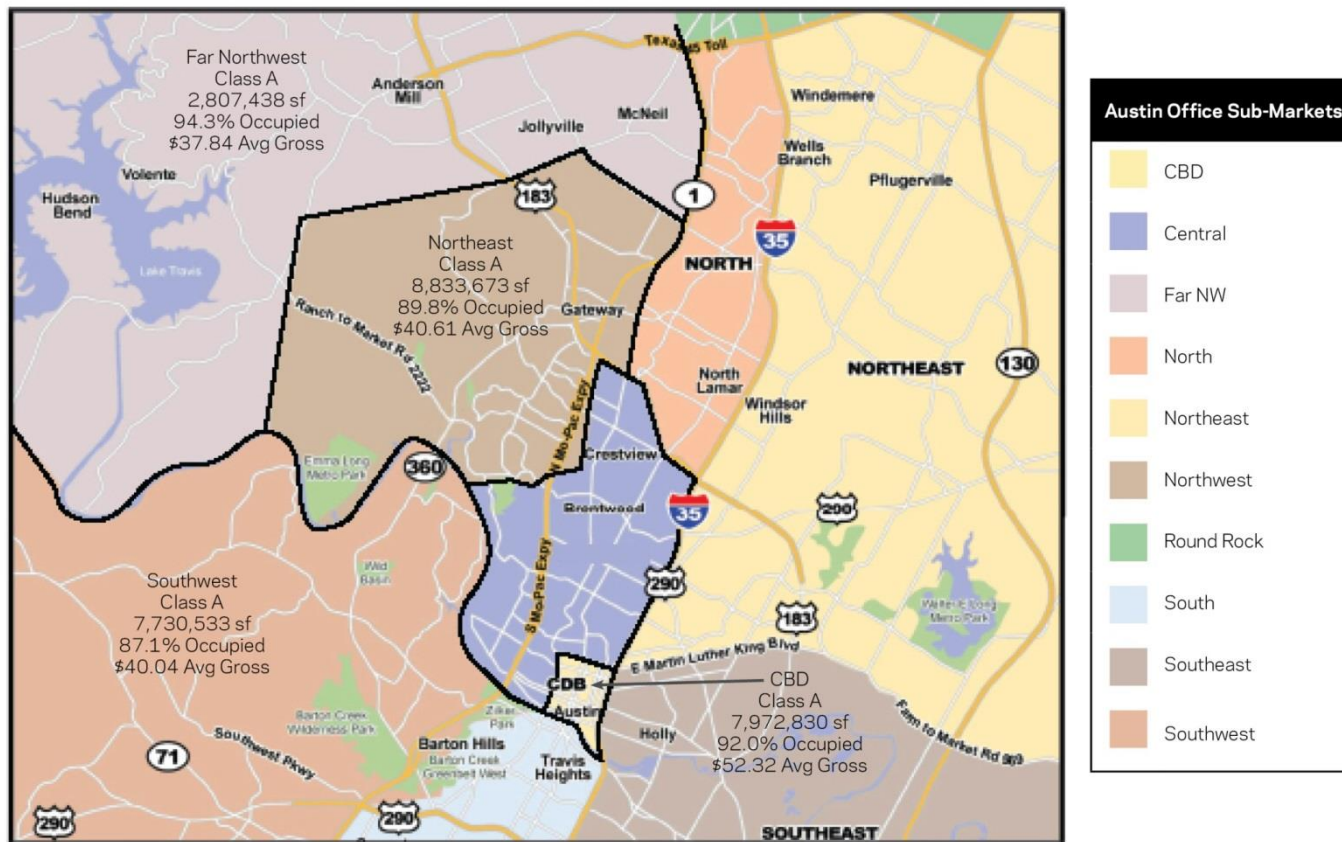


Domain 11 & 12





Austin Class A Office Sector Map



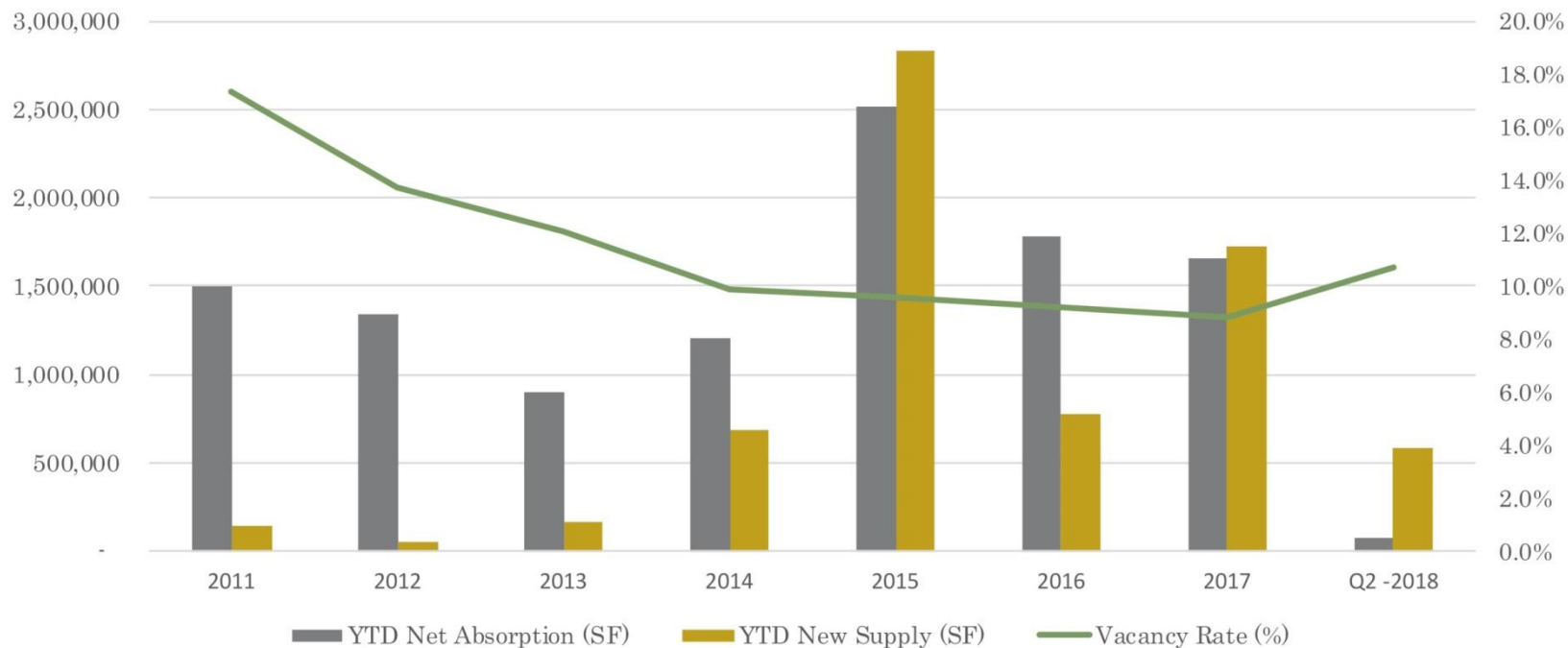
Source: CBRE Austin MarketView Q2 2018



- **Operating Expenses at historical highs and rising**
- **Density**
Evolving building design
- **Urban Amenities driving leasing demand**
Millennial hiring and retention
- **Amenities and Concierge Services**
- **“Creative” office space design**
- **Large Tech Tenant Leases**
Secondary campuses vs. Austin-grown companies



Annual Absorption vs. New Deliveries vs. Vacancy



Total Delivered this Cycle (Since 2014)	6.7 Million SF	91% Leased
Total Currently Under Construction (Delivering 4/2018 to 12/2019)	3.9 Million SF	54% Leased



	Northwest Class A - Surface Parking	Northwest Class A - Garage Parking	Domain	SW	CBD
Total Square Footage	1,713,322	4,996,755	1,797,309	6,125,424	5,781,145
Total Direct Vacant (SF)	135,715	155,263	16,987	483,942	334,727
Direct Vacant (%)	7.90%	3.10%	0.94%	7.90%	5.79%
Total Sublease Vacant (SF)	64,794	20,904	7,126	79,587	22,593
Sublease Vacant (%)	3.8%	0.42%	0.40%	1.30%	0.39%
Avg. Net Rental Rate	\$23.85	\$26.53	\$30.67	\$27.92	\$38.36
Avg. Operating Expenses	\$14.09	\$14.42	\$15.08	\$15.32	\$22.02
Avg. Gross Rental Rate	\$37.93	\$40.95	\$45.71	\$43.25	\$59.16
Avg. Parking Ratio per 1,000	4.35	4.12	4.03	4.05	2.38



UT Medical School

Innovation District

West Sixth Street Entertainment District

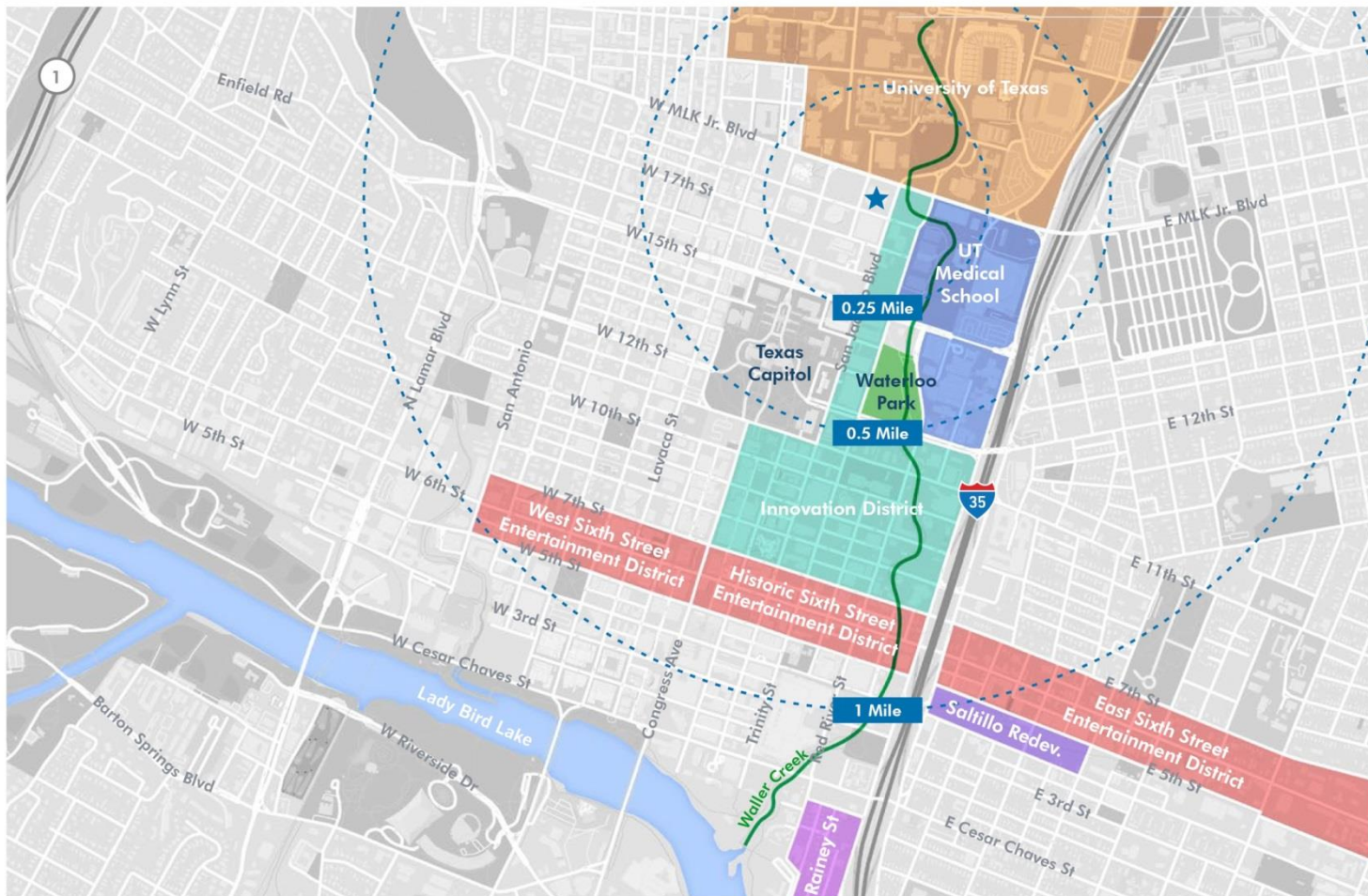
East Sixth Street Entertainment District

Plaza Saltillo Redevelopment

Rainey Street
Entertainment District

Waller Creek Green Space

UT Medical School

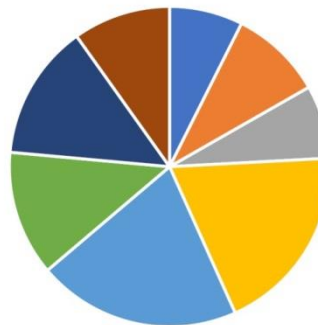




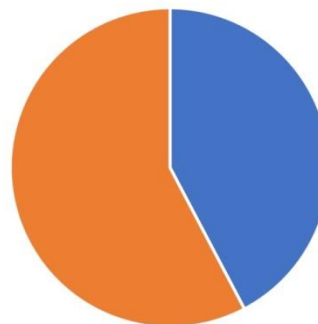
Leasing of Major Tech Tenants

Summary

	Total Net Absorption 2014 to August 2018 (in SF)	Share of Austin's Total Net Absorption
Google	338,438	3.1%
Amazon	426,228	3.9%
WeWork	337,694	3.1%
Facebook	873,797	8.1%
Indeed	936,874	8.7%
Expedia	576,728	5.3%
Apple (lease only)	625,641	5.8%
Parsley Energy	450,000	4.2%
<hr/>		
sum of Big 8	4,565,400	
sum of Austin market	10,796,075	



■ Google ■ Amazon ■ WeWork ■ Facebook
■ Indeed ■ Expedia ■ Apple (lease only) ■ Parsley Energy



■ Sum of Big 8 ■ All other companies



Quality. Community. Integrity.
It's our Endeavor.



Questions?



Public Agenda Item # 8.3

*Consideration and Approval of the ERS Fiscal Year 2019 Proposed Operating and Capital Budgets (**Action**)*



August 29, 2018

Porter Wilson, Executive Director
Machelle Pharr, Chief Financial Officer

Proposed FY19 Operating and Capital Budgets



Major initiatives

- Provide information on the pension plans and Texas Employees Group Benefits Program (GBP) to the 86th Texas Legislature.
- Continue development of the equity directional growth portfolio.
- Develop Opportunistic Credit asset class as part of the newly approved asset allocation.
- Conduct a two-year review of the 2017 Board-approved pension trust assumed rate of return.
- Produce an informational video series about how ERS invests the Retirement Trust Fund.
- Conduct solicitation for a third-party administrator for the Texa\$aver 401(k) / 457 Program.
- Expand access to mental health services by activating mental health virtual visits.
- Develop goals and structure for the group benefits wellness program.
- Continue to pursue innovative cost containment ideas and programs for the GBP.

Proposed FY19 Operating and Capital Budgets



Major initiatives (continued)

- Conduct outreach to GBP participants for feedback on insurance programs.
- Conduct Summer and Fall Enrollment for members.
- Conduct the 2019 Board of Trustees election.
- Support Sunset Commission's staff evaluation of required implementations and policy changes.
- Evaluate, select and implement a new benefits administration service (BAS).
- Continue to enhance data quality and data analysis capabilities.
- Complete space preparation and relocate staff from the annex.
- Conduct an enterprise risk management assessment.
- Develop and implement a plan to address opportunities identified in the Survey of Employee Engagement.
- Evaluate and refine the agency's succession planning.

Proposed FY19 Operating Budget

Comparison of the FY18 and FY19 budgets



The FY19 proposed operating budget is \$82.3 million, or 4.9% higher than the FY18 operating budget.

	FY18	FY19	Variance
Salary-related Expenses	\$49.3M	\$51.5M	\$2.2M
Other Expenses	\$29.3M	\$30.8M	\$1.7M
Total	\$78.4M	\$82.3M	\$3.9M

Proposed FY19 Operating Budget

Significant budget increases – new positions



Division	Duties	FTEs
Investments	Research/expansion of hedge funds	1
Office of Procurement & Contract Oversight	Contract management and oversight	0.5
Group Benefits	Grievance administration	1
Customer Benefits	System modification analysis and testing/ data cleanup	1
Information Systems	IT asset management	1
Operations Support	Facility and property management	1
Total New Positions		5.5

Proposed FY19 Operating Budget

Significant budget increases – salary-related



- Compensation study: \$289,000
- Incentive Compensation Plan: \$5.45 million

Fiscal Year	Amount
2018 (estimated)	\$3,511,018
2017	\$1,307,684
2016	\$626,967

Proposed FY19 Operating Budget

Significant reductions in initial budget



- Computer software equipment rental: \$310,000
- One-time funding
 - Professional services: \$94,000
 - Building improvements: \$150,000

Proposed FY19 Operating Budget

Significant budget drivers – biennial costs



- Trustee election: \$306,400
 - Contracts
 - Postage
- Actuarial services: Additional \$125,000

Proposed FY19 Operating Budget

Significant budget drivers – non-salary-related



- Investment consultants: \$457,000
- Insurance audit services: \$219,000
- Postage: \$190,000
- Consulting services: \$130,000

Proposed FY19 Operating Budget



Significant budget drivers – non-salary-related (continued)

- Business process and improvements
 - Benefits administration services (BAS)
 - Independent verification and validation, and project management: \$207,000 (FY19 funds), \$315,000 (FY18 funds)
 - Implementation/operational system costs: TBD
 - Systems for procurement and contract management oversight: \$225,000

Proposed FY19 Operating Budget

Budget breakout: direct investment-related



	FY18 Budget	FY19 Budget	Increase	Percent Change
Direct Investment-related				
Investments Division	\$27.62M	\$29.16M	\$1.55M	5.6%
Other Divisions	\$4.24M	\$4.24M	-	-
Total Direct Investment Expenses	\$31.86M	\$33.40M	\$1.55M	4.9%

Proposed FY19 Capital Budget



- 2018 operating budget
 - Owner's representative contract: \$1.3 million
- 2019 budget:
 - New building
 - Consulting and architectural services: \$11.1 million
 - Various: \$50,000
 - Existing building
 - Building improvements and architectural services: \$355,000
 - Furniture and equipment: \$195,000
 - Various: \$23,000

FY18 Budget	\$1.3M
FY19 Budget	\$11.7M
FY18-19 Increase	\$10.4M

A budget adjustment will be presented at the December Board meeting with the building contract award recommendations.

Proposed FY19 Operating and Capital Budgets



Contract and other costs notes – Exhibit B

- Professional and other contracted services: Executive Director authorized to contract on behalf of ERS
- Notes referenced in division budgets
- Investment advisor fees presented in detail in Exhibit B – Note 3

Questions?
Action Item



Public Agenda Item # 9.1

Executive Director Agency Update



August 29, 2018

Porter Wilson, Executive Director

Strategic Plan

Fiscal Years 2019-2023



- Developed every two years
- Re-affirmed agency mission

ERS offers competitive benefits to enhance the lives of its members.

- Historical top-level goals maintained:
 - Support Our Members' Retirement Income Security
 - Sustain Competitive Group Benefits Programs
 - Engage Stakeholders for Informed Decision Making
 - Enhance Agency Performance and Accountability
- Updated strategies and activities



Strategic Plan
Fiscal Year 2019-2023
June 2018



Legislative Appropriations Request (LAR)

Fiscal Years 2020-2021



- Base-level funding for each year of the 2020-2021 biennium is at the projected 2019 level.
- Retirement and Group Benefits Program were exempted from the 10% GR/GR-D reduction.
- Items above the base funding level are considered “exceptional items” and must be itemized, prioritized and justified in the LAR.

Legislative Appropriations Request (LAR)

Retirement base request



Strategy	2020	2021	2020-2021 Biennium
ERS Retirement at 9.5% State Contribution Level	\$648M	\$648M	\$1.3B
LECOS Retirement Program at 0.5% State Contribution Level	\$8.5M	\$8.5M	\$17M
JRS 2 at 15.663% State Contribution Level	\$12.5M	\$12.4M	\$25M
JRS 1	\$23.3M	\$23.3M	\$46.6M
Public Safety Benefits	\$13.8M	\$13.8M	\$27.6M
Retiree Death Benefits	\$12.3M	\$12.3M	\$24.6M

The additional 0.5% paid by state agencies for the ERS Retirement Program is included in the individual agencies' LARs.

Legislative Appropriations Request (LAR)

Retirement exceptional items request



Additional funding is requested to increase contributions to the actuarially sound contribution rate.

Strategy	All Funds		
	2020	2021	2020-2021 Biennium
ERS Retirement – 23.33% ASC	\$265.5M	\$265.5M	\$531.0M
LECOS Retirement – 3.06% ASC	\$37.8M	\$37.8M	\$75.6M
JRS 2 – 23.98% ASC	\$705K	\$705K	\$1.4M

Legislative Appropriations Request (LAR)

Health benefit program base request



2020-2021 request at 2019 projected funding level

Strategy	All Funds		
	2020	2021	2020-2021 Biennium
Group Benefits Program	\$1.96B	\$1.96B	\$3.92B
Insurance Contributions for Local CSCD Employees	\$68.8M	\$68.8M	\$137.6M
Exceptional Item Request	-0-	-0-	-0-

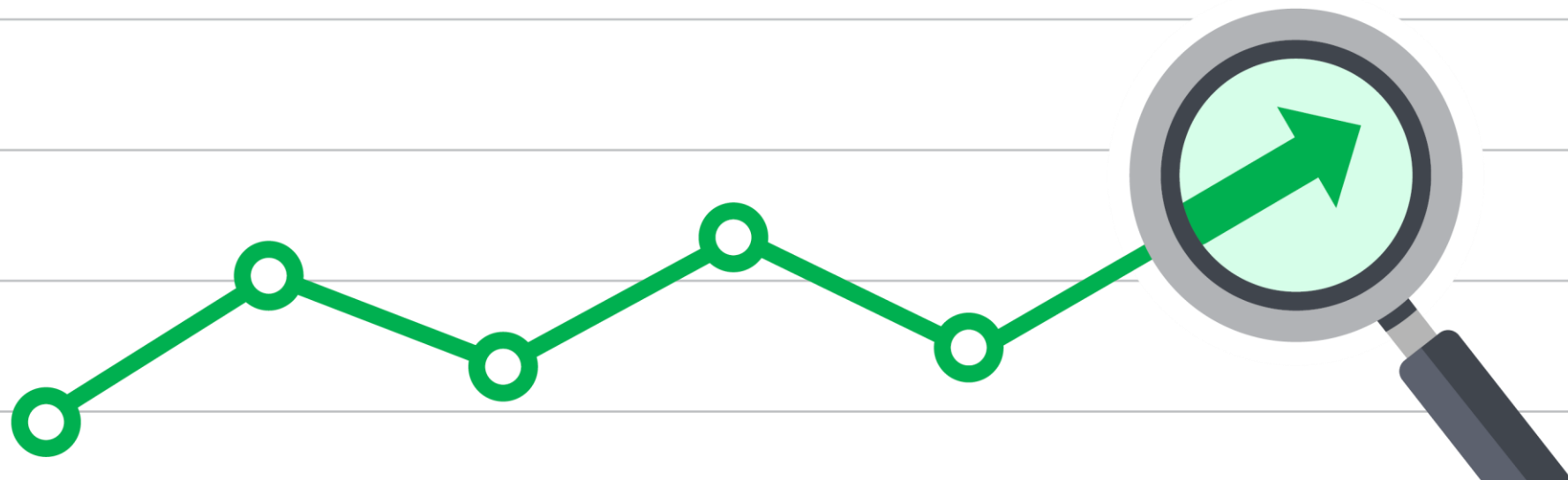
No exceptional item funding requested for 2020-2021 biennium

- Sufficient savings are projected to cover expected claims

Survey of Employee Engagement Conducted by University of Texas



ERS' employee response rate was exceptional! **92%**

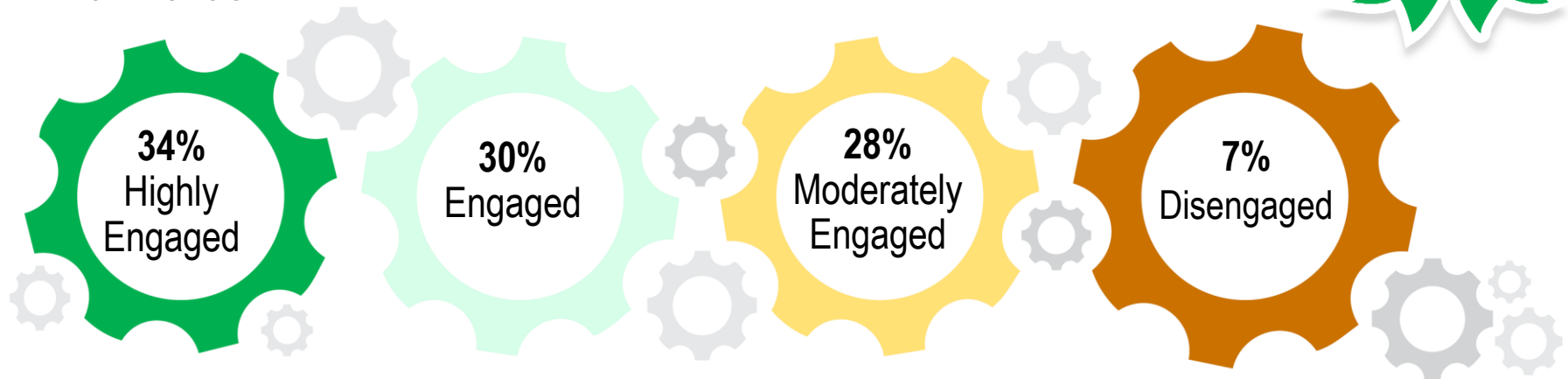


ERS' Overall 2018 Score = 401

Increase of 10 points vs. 2016 (391)



- Score is composed of the average of all survey items and represents the overall score for the organization.
- Scores above 400 are the product of a highly engaged workforce.



Construct Scores Breakdown

Construct	2018 Score	2016 Score	Difference
Workgroup	415	404	▲ 11
Strategic	428	425	▲ 3
Supervision	413	403	▲ 10
Workplace	428	419	▲ 9
Community	406	395	▲ 11
Information Systems	376	365	▲ 11
Internal Communication	383	372	▲ 11
Pay	296	297	▼ 1
Benefits	405	394	▲ 11
Employee Development	407	402	▲ 5
Job Satisfaction	401	392	▲ 9
Employee Engagement	418	409	▲ 9

The survey is organized into 12 categories, or concepts most utilized by leadership and those which drive organizational performance and engagement.

Scores are measured as follows:

- Above 375 = areas of substantial strength
- Between 350–375 = perceived more positively than negatively
- Between 325–349 = viewed less positively by employees
- Below 325 = agency opportunities

Climate Analysis



Atmosphere: Workplace is safe and free of harassment.

Score: 431 – substantial strength (2016 score: 420)

Ethics: Employees believe that equal and fair opportunity exists for them and others.

Score: 429 – substantial strength (2016 score: 424)

Fairness: Employees believe that equal and fair opportunity exists for them and others.

Score: 407 – strength (2016 score: 396)

Feedback: There is opportunity to provide information so improvements can occur.

Score: 389 – strength (2016 score: 352)

Management: ERS leadership is accessible and visible, and effectively communicates.

Score: 389 – strength (2016 score: 382)

Plan Year 2019 Summer Enrollment



ERS mailed
268,901 PBES
packets.



51,598 members
made coverage
changes.



ERS and ACT received 10,612
enrollment phone calls:



Plan Year 2019 Fall Enrollment

Retirees enrolled in Medicare can make benefits changes for themselves and their families.

- October 29 – November 16
- Enrollment fairs in most major cities
 - Webinars for those who don't have a fair nearby

Questions?



Public Agenda Item # 10.1

Executive Session – In accordance with Section 551.074, Texas Government Code, the Board of Trustees will meet in executive session to evaluate the duties, performance and compensation of the Executive Director of the Employees Retirement System of Texas. Thereafter, the Board may consider appropriate action in open session.



August 29, 2018

Public Agenda Item # 11.1

*Election of Chair and Vice-Chair of the
ERS Board of Trustees for Fiscal Year 2019 – (Action)*



August 29, 2018

Questions?
Action Item



Public Agenda Item # 12.1

Confirm date for the next Joint meeting of the ERS Board of Trustees and Investment Advisory Committee, the next meeting of the Board of Trustees, and the next meeting of the Audit Committee



August 29, 2018

Next Meeting Dates



2018 Meeting Dates

2 Day Workshop:

Tuesday – Wednesday, December 11-12, 2018

Questions?



Public Agenda Item # 13.1

Adjournment of the ERS Board of Trustees meeting



August 29, 2018